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**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

In the Matter of the Application of Crimson
California Pipeline L.P. (PLC-26) for Authority to
Increase Rates for Its Crude Oil Pipeline Services.

Application No. 16-03-009
(filed March 11, 2016)

**AMENDMENT TO APPLICATION;
REQUEST FOR TIMELY INTERIM RATE RELIEF**

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Dated: June 15, 2016

Attorneys for Crimson California Pipeline, L.P.

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

In the Matter of the Application of Crimson
California Pipeline L.P. (PLC-26) for Authority to
Increase Rates for Its Crude Oil Pipeline Services.

Application No. 16-03-009
(filed March 11, 2016)

**AMENDMENT TO APPLICATION;
REQUEST FOR TIMELY INTERIM RATE RELIEF**

Crimson California Pipeline L.P. (“Crimson California”) hereby respectfully files the subject amendment to A. 16-03-009 requesting immediate issuance by the Commission of an order authorizing an interim rate increase of 14.3%, subject to refund, necessary to allow Crimson California to recover current operating expenses.

I. BACKGROUND

On January 29, 2016, Crimson California submitted its Advice Letter No. 16-0 increasing its tariff rates as authorized in Public Utilities Code 455.3 by ten percent effective March 1, 2016. On February 29, 2016, the ED Tariff Unit issued a “Notice of Suspension” stating that AL 16-0 “is suspended for 30 days beginning March 1, 2016...” Any further suspension of AL 16-0 is precluded by the specific provisions of Public Utilities Code Section 455.3, and the 10% rate increase that is the subject of AL 16-0 became effective as of April 1, 2016, subject to refund.

On March 11, 2016, Crimson California filed Application No. 16-03-009 requesting Commission authorization to increase the rates and charges for its intrastate crude oil transportation services by an aggregate total of sixty (60) percent, including the AL 16-O increase authorized by PU Code Section 455.3.

A prehearing conference in A. 16-03-009 was held on May 23, 2016 to address scheduling, among other things. Based upon the positions of the parties, it is apparent that Commission resolution of A. 16-03-009 and the extent of Crimson California's entitlement to a rate increase, including the AL 16-0 increase, will occur no earlier than June, 2017. As set forth below, Crimson California is not currently recovering revenues sufficient to cover its operating expenses. Specifically, Crimson's expert, Dr. Michael Webb, estimates that Crimson will lose approximately \$3.4 million per year under the currently effective, unjust rates. This loss represents more than 10% of Crimson's annual revenue of approximately \$29 million per year.

As noted in both AL 16-O and A. 16-03-009, a significant portion of Crimson California's operating expenses are related to ongoing pipeline safety and integrity management programs. Rates that are insufficient to cover operating expenses undermine Crimson California's ability to fund such programs with internal cash from operations.

Crimson California cannot be lawfully required to continue to operate under such circumstances, and it is entitled to immediate rate increase of 14.3% necessary, at

a minimum, to provide revenues sufficient to cover its operating expenses. No public interest is served by maintaining Crimson California's rates at their current, unjust level.

II. REQUESTED EMERGENCY RATE RELIEF

It is impermissible under state law, as interpreted by the Commission, to require a public utility to provide service at a loss, much less to countenance the provision of utility service at rates that do not recover the utility's operating expenses. Specifically, the Commission has stated as follows:

A rate is not reasonable and sufficient if it fails to contribute its fair share of all operating expenses and a just proportion of fixed charges beyond interest and a reasonable return on [utility] investment...¹

A reasonable rate is one that will produce as nearly as possible all expenses, including a fair and just proportion of fixed charges, overhead, bond interest, and all other charges as the nature of the traffic will permit.²

It is well-established that rates may be unreasonable because they are too low as well as because they are too high.³

Rates cannot be said to be reasonable which are not reasonably remunerative to the carrier and rates which do not pay their full proportion of operating expenses...⁴

The Commission has a corresponding duty to maintain reasonable rates to meet operating costs, among other things.⁵

¹ *Re Petroleum Products* (1936) 40 C.R.C. 221, 248

² *Id.* at 264.

³ *Reduced Rates on Cement*; 50 CPUC 632, 633.

⁴ *Lang v. Railroad Com. of California* (1935) 2 Cal.2d , 558.

⁵ *OII whether PG&E, SCE, SDG&E and respective holding companies have violated statutes and Commission decisions, etc.*, D.02-01-039, p. 67.

Rates that fail to allow a utility to recover its operating expenses also clearly run afoul of federal as well as state law. As stated by the U.S. Supreme Court:

An agency cannot require a railroad to operate at a loss, which principle is illustrated by the many cases in which the constitutionality of a rate is shown to depend on whether it yields to the parties concerned a fair return.⁶

In *Idaho Power Co. v. Thompson* (S.D. Idaho 1927) 19 F.2d 547 , 582–583, the court held that the rates were insufficient to cover bare operating costs and were invalid on that basis, emphasizing that the prescribed rates were so unreasonably low that they were non-compensatory and therefore confiscatory.

California courts have determined that a water company couldn't continue operating under its current rates and that the Commission couldn't require it to continue service at an out-of-pocket loss without confiscating its property without due process of law.⁷

Rates that are insufficient to allow a utility to recover its operating expenses are *per se* unreasonable, unjust, and unlawful. Crimson California's current rates, including the 10 percent increase related to AL 16-0, have been too low for the utility to recover its cash operating costs; and, in the absence of interim rate relief, will remain unreasonable pending the Commission's ultimate resolution of A. 16-03-009 sometime in mid-2017.

⁶ *Brooks v. Railroad Com. of Louisiana* (1920) 251 U.S. 396, 399.

⁷ *Miller v. Railroad Commission* (1937) 9 Cal.2d 190, 195.

Given that Crimson California's current rates can be shown to be unreasonable as a matter of law, immediate rate relief is necessary to allow Crimson California to collect revenues that, at a minimum, allow for the recovery of its reasonable operating expenses. For the reasons set forth below, Crimson California should be authorized, as soon as is practicable, to increase its rates, subject to refund, by an additional 14.3% to meet operating costs .

III. SUPPORT FOR IMMEDIATE, INTERIM RATE RELIEF

In light of the urgency of its need for immediate rate relief and in an effort to limit the controversy and complexity associated with its request, Crimson California herein seeks only the minimum additional rate increase that will allow it to have a reasonable expectation that it will recover its cash operating costs - which costs are only a part of the cost of the utility pipeline transportation services that Crimson California provides under its tariff. Crimson California's support for an interim rate increase of 14.3% does not include any amount for depreciation of property or return on capital. While depreciation and return on capital are real economic costs properly included in final rates to be authorized by the Commission in A. 16-03-009, they have been excluded from the calculation of operating expenses that Crimson California presents to justify its request for a 14.3% interim rate increase.

The Declaration of Michael J. Webb, included as Attachment A hereto, sets forth the facts in support of Crimson California's request for interim rate relief, including calculation of the minimum additional rate increase required for

Crimson California to recover its cash operating costs pending the Commission's ultimate resolution of A. 16-03-009. In particular, Exhibit No. MJW-1 to the Declaration shows the following: Column (a) shows Crimson's actual cash from operations for the most recent four operating quarters, April 2015 through March 2016 (the "Subject Period"). Columns (b) through (f) show adjustments to actual revenue for the effects of (1) updated volume and crude-price expectations and (2) the 10 percent rate increase related to AL 16-0.⁸

In the Subject Period, Crimson California earned total revenue⁹ of \$29,981,705 and incurred \$32,957,040 in cash operating expenses, resulting in cash from operations of negative \$2,975,335.¹⁰ This negative cash from operations shows that even without considering (1) any cost recovery for depreciation for its substantial investment in infrastructure in California and (2) any recovery of a reasonable profit, Crimson California lost money moving oil within the state of California on behalf of its ratepayers.

During the pendency of A. 16-03-009, revenues will differ from those reflected in the column (a) of Exhibit No. MJW-1 for two reasons: (1) updated volume and crude-price expectations and (2) the 10 percent rate increase related to AL 16-0. For this reason, certain adjustments have been made to revenue to reflect the most updated available data.

⁸ Declaration of Michael J. Webb; par. 4.

⁹ Although non-jurisdictional revenue is not properly included in calculating cost-based rates, such revenue has been included in the calculation of rates appropriate to this emergency petition to minimize controversy..

¹⁰ Declaration of Michael J. Webb; par. 5.

- Adjustment 1 reduces transportation revenue to reflect continued volume declines;
- Adjustment 2 increases transportation revenue to reflect the 10 percent rate increase related to AL 16-0;
- Adjustment 3 reduces PLA revenue to reflect continued volume declines and lower crude price in the second half of the Subject Period;
- Adjustment 4 increases PLA revenue to reflect the recent increase in crude oil since the Subject Period.¹¹

With regard to the revenue reduction reflected in Adjustment 1, transportation revenue was significantly lower in the second half of the Subject Period. Adjustment 1 in column (a) applies this six-month trend for projected revenue in place of the twelve-month figure as follows:¹²

Table 1 – Explanation of Adjustment 1 to Transportation Revenue

Line	Description	Amount
1	Transportation revenue, second half (Oct 2015 – Mar 2016)	\$10,677,130
2	Annualized transportation revenue, second half of Subject Period	\$21,354,260
3	Transportation revenue, full Subject Period	\$22,036,405
4	Difference	\$(682,145)

Crimson California believes that Adjustment 1 reflects the most reasonable expectation of the annual transportation revenue that Crimson will earn during the

¹¹ Declaration of Michael J. Webb; par. 6.

¹² *Id.* at par. 7.

pendency of this proceeding, before taking into account the 10 percent rate increase that it is already collecting subject to refund.

With regard to the revenue increase reflected in Adjustment 2, Crimson increased its rates after the Subject Period by 10 percent per AL 16-0. Adjustment 2 in column (c) of Exhibit No. MJW-1 reflects the additional revenue that Crimson California expects to realize from its 10 percent rate increase after the Subject Period. This adjustment increases revenue by \$2,135,426, which is 10 percent of the annualized transportation revenue in Table 1, Line 2, above. Since Crimson California will collect this amount during the pendency of this proceeding, it is appropriate to include it in projected annual revenue in column (f).¹³

With regard to the PLA revenue reduction reflect in Adjustment 3, just as the continuing decline in volumes causes projected transportation revenue to decline, the continued decline in volumes and the decline in oil prices causes the projected PLA revenue to decline. PLA revenue was significantly lower in the second half of the Subject Period compared to the first half. Adjustment 3 in column (d) applies this six-month trend for projected revenue in place of the twelve-month figure as follows:¹⁴

¹³ Declaration of Michael J. Webb; par. 8.

¹⁴ *Id.* at par. 9.

Table 2 – Explanation of Adjustment 3 to PLA Revenue

Line	Description	Amount
1	PLA revenue, second half (Oct 2015 – Mar 2016)	\$2,395,124
2	Annualized PLA revenue, second half	\$4,790,248
3	PLA revenue, full year	\$7,407,434
4	Difference	\$(2,617,186)

Crimson California recognizes that this Adjustment 3 reduction may overstate the projected decline in PLA revenue. Specifically, as shown in Exhibit No. MJW-2 the US Energy Information Administration reported that the average crude price for the Subject Period was \$37.57. As shown in Exhibit No. MJW-3, the futures price for crude oil for the rest of 2016 averages \$49.63. This implies an average crude oil price of \$43.60. Adjustment 4, shown on Line 2, Column (e) of Exhibit No. MJW-1, increases the annualized PLA revenue from the most recent six-month period to reflect this higher average crude oil price as follows:¹⁵

¹⁵ Declaration of Michael J. Webb; par. 10.

Table 3 – Explanation of Adjustment 4 to PLA Revenue

Line	Description	Amount
1	Crude price, Oct 2015 – Mar 2016	\$37.57
2	Average crude futures price through December 2016	\$49.63
3	Average expected crude price April 2016 – December 2016 ((Line 1 + Line 2) / 2)	\$43.60
4	Expected crude price as a percentage of crude price, second half (Line 3 / Line 1)	116.1%
5	Adjusted annualized PLA revenue, second half (Line 4 * Line 6)	\$5,559,085
6	Annualized PLA revenue, second half (Table 2, Line 2)	\$4,790,248
7	Difference (Line 5 – Line 6)	\$768,837

After the two adjustments to PLA revenue are reflected, annual cash from operations is projected to be negative \$3,370,404.¹⁶ In other words, the combination of continued volume declines and continued low oil prices mean that Crimson California can expect to lose money on a cash basis, even after factoring in its 10 percent rate increase.

With regard to calculation of Crimson California's cash operating expenses during the Subject Period, derivation of the relevant amount of \$32,957,040 in

¹⁶ Declaration of Michael J. Webb; par. 13.

operating expenses is straightforward and does not require adjustments. Specifically, \$32,957,040 reflects the actual cash expenses that Crimson California incurred during the subject period without adjustment based upon the books and records of the company.¹⁷ In other words the \$32,957,040 reflects actual cash that Crimson California paid out to provide service to its ratepayers. Because the proposed interim rate increase will not be in place for an indefinite period, as will the ultimate rates adopted in A. 16-03-009, normalizing and test period adjustments are not necessary. Moreover, because expenses do not occur consistently throughout the year, e.g. repair and maintenance expense tends to be higher in the summer and early fall—analyzing a period of less than a year could generate misleading results.¹⁸ For this reason, use of the most recent 12 month period for which complete data is available provides the most accurate projection of Crimson California's expenses and the expenses it is likely to face during the pendency of the rate proceeding.

To remedy its ongoing loss of \$3,370,404 it is necessary to increase Crimson California's current, unreasonable rates by an additional 14.3%. The 14.3% increase is calculated by dividing the absolute value of the projected annual cash from operations by the projected annual transportation revenue, *i.e.*

¹⁷ *Id.* at par. 11.

¹⁸ In fact, annualizing the most recent six months of the subject period would imply operating expenses of \$36.3 million

(- 1) * Line 6 / Line 1 in column (d). As shown in Exhibit No. MJW-1, this increase would result in a Projected Cash from Operations of \$0.¹⁹

Attachment B hereto sets forth Crimson California's existing rates (including the 10% AL 16-O increase) as well as the proposed interim rates reflecting the proposed 14.3% increase.

Crimson California is confident that the requested interim rate increase of 14.3% substantially understates the rate increase Crimson California will be able to justify upon final resolution of A. 16-03-009. Fundamentally, the combination of the 10 percent rate increase and 14.3% rate increase does not allow Crimson California to recover all of its costs of providing service. Crimson has invested substantial capital in providing this public service. Exhibit No. MJW-1 makes no provision to recover depreciation or a return on this capital. While the shippers pleadings suggest disagreement about the magnitude of these recoveries, there can be no plausible basis to suggest that depreciation expense or return on rate base will be zero. Therefore, even if the shippers challenge some of the revenue adjustments reflected herein, it must be emphasized that the 14.3% rate increase explicitly and intentionally excludes costs that public utilities such as Crimson California clearly have a right to recover. Moreover, both the 10% rate increase and the 14.3% rate increase are being collected subject to refund.

In the unlikely event that revenues or costs change dramatically such that revenues substantially exceeded costs during the pendency of this rate proceeding,

¹⁹ *Id.*

the Commission would have the ability to make appropriate adjustments.

Therefore, it is appropriate to make adjustments that minimize the chances that even after these interim rate increase Crimson will continue to have negative cash from operations.

As a matter of settled regulatory law and principle, Crimson California believes that it is entitled to an immediate interim rate increase of 14.3%. As a policy consideration, it is worth noting the relative difference in size between Crimson California's shippers and Crimson California. While it is never appropriate to require a public utility to operate at a loss, it is truly problematic in this case. As shown in the table below, Crimson's revenue, operating income and assets of Crimson, are orders of magnitude smaller than the comparable measures of Tesoro, Valero and P66. There is no sound reason of public policy to require a company such as Crimson California to provide service at a loss to a company such as P66 that has more than 3000 *times* the revenue and more than 500 *times* the assets of Crimson.²⁰

Table 1: Comparison of Crimson to its Shippers				
Item	Crimson	Tesoro	Valero	P66
Revenue	\$ 30,963,431	\$ 28,711,000,000	\$ 87,804,000,000	\$ 100,949,000,000
Operating Income	\$ (3,836,777)	\$ 2,827,000,000	\$ 6,358,000,000	\$ 4,227,000,000
Assets	\$ 90,586,904	\$ 16,332,000,000	\$ 44,343,000,000	\$ 48,580,000,000

²⁰ Declaration of Michael J. Webb; par. 12.

IV. CONCLUSION

Rates that are insufficient to allow a utility to recover its operating expenses are *per se* unreasonable. Crimson California's existing rates are insufficient to allow recovery of its operating expenses. To remedy its ongoing loss of \$3,370,404, it is necessary to increase Crimson California's current, unreasonable rates by an additional 14.3%.

Crimson California submits that there is a legal necessity and factual support for the Commission to take immediate action to remedy Crimson California's financial emergency by issuing its timely order authorizing an interim rate increase of 14.3%, subject to refund.

Respectfully submitted this 15th day of June, 2016 at San Francisco, California.

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By /s/ James D. Squeri
James D. Squeri

Attorneys for Crimson
California Pipeline L.P.

VERIFICATION OF COUNSEL

I, James D. Squeri, declare:

I am an attorney at law duly admitted and licensed to practice before all courts of this state and I have my professional office at Goodin, MacBride, Squeri & Day, LLC, 505 Sansome Street, Suite 900, San Francisco, California 94111.

I am an attorney for Applicant, Crimson California Pipeline, L.P., in the above-entitled matter.

No officer of Crimson California Pipeline L.P. is present in the county in which I have my office and for that reason I am making this verification on behalf of Crimson California Pipeline, L.P.

I have read the foregoing Amendment to Application No. 16-03-009/Request for Interim Rate Relief .and know its contents thereof.

I am informed and believe that the matters stated therein are true and, on that ground, I allege that the matters stated therein are true.

I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct.

Executed at San Francisco, California on this 15th day of June, 2016.

/s/ James D. Squeri
James D. Squeri

ATTACHMENT A

DECLARATION OF MICHAEL J. WEBB

DECLARATION OF MICHAEL J. WEBB

1. My name is Michael J. Webb, PhD. I am the same Dr. Webb who filed a declaration on behalf of Crimson California Pipeline L.P. ("Crimson") supporting its March 11, 2016 application for rate increase ("March Application"), which followed a January 29, 2016 request by Crimson to increase its rates by 10 percent, subject to refund ("January Request").
2. I have been asked by Crimson to prepare calculations in support of its request for Emergency Rate Relief. It is my understanding from counsel (1) that this relief is sought because it is impermissible under California Law to require a public utility to provide service at a loss and (2) that the absence of emergency relief would impose such a requirement during the pendency of Crimson's March Application for rate increase if Crimson's rates are insufficient to allow the company to recover all of its cash operating costs. In this declaration, I demonstrate that even with the 10 percent increase from the January Request, Crimson's rates will be too low for the company to recover its cash operating costs during the pendency of the March Application. For the reasons I discuss in my declaration below, I recommend that the Commission allow Crimson to increase its rates by an additional 14.35 percent subject to refund.
3. Although cash operating costs are only a part of the cost of the transportation service that Crimson provides under its tariff, in order to minimize both controversy and complexity, counsel has asked me to recommend the minimum additional rate increase that will allow Crimson to have a reasonable expectation that it will recover its cash operating costs during the pendency of its March Application. For this reason, I am not preparing a cost-

of-service or achieved return calculation. The costs I present herein do not include any amount for depreciation of property or return on capital. While these are real economic costs and should be included in final rates that this Commission prescribes for Crimson, I have not included them in the calculation supporting Crimson's request for Emergency Rate Relief. Exclusion of depreciation and return eliminates many areas of controversy raised by the shippers. The appropriate level of rate base, rate of return, cost of debt, and tax allowance—while relevant for the pending March Application—are not at issue in this calculation because these elements have been excluded entirely.

4. I present my calculation of the minimum additional rate increase required for Crimson to recover its cash operating costs during the pendency of the March Application in Exhibit No. MJW-1. Column (a) shows Crimson's actual cash from operations for the most recent four operating quarters, April 2015 through March 2016 (the "Subject Period"). Columns (b) through (f) show adjustments to actual revenue for the effects of (1) updated volume and crude-price expectations and (2) the 10 percent rate increase provided by the January Request.
5. In the Subject Period, Crimson earned total revenue¹ of \$29,981,705 and incurred \$32,957,040² in cash operating expenses, resulting in cash from operations of negative \$2,975,335. (See Lines 4 through 6, Column (a) of Exhibit No. MJW-1.) This negative cash from operations shows that even without considering (1) any cost recovery for depreciation for its substantial investment in infrastructure in California and (2) any

¹ I have included all revenue including non-jurisdictional revenue that would not be appropriate to include in calculating cost-based rates. To minimize controversy I have included this revenue in the calculation of rates appropriate to this emergency petition.

² As noted above, this figure excludes depreciation and capital costs which are real costs of doing business and must be included in any final rate.

recovery of a reasonable profit Crimson lost money moving oil within the state of California on behalf of its ratepayers.

6. During the pendency of the March Application, revenues will differ from those reflected in the column (a) of Exhibit No. MJW-1 for two reasons: (1) updated volume and crude-price expectations and (2) the 10 percent rate increase provided by the January Request. For this reason, I made certain adjustments to revenue to reflect the most updated available data.

- Adjustment 1 reduces transportation revenue to reflect continued volume declines;
- Adjustment 2 increases transportation revenue to reflect the 10 percent rate increase provided by the January Request;
- Adjustment 3 reduces PLA revenue to reflect continued volume declines and lower crude price in the second half of the Subject Period;
- Adjustment 4 increases PLA revenue to reflect the recent increase in crude oil since the Subject Period.

In the paragraphs below, I briefly explain each of these adjustments.

7. Transportation revenue was significantly lower in the second half of the Subject Period. Adjustment 1 in column (b) applies this six-month trend for projected revenue in place of the twelve-month figure as follows:

Table 1 – Explanation of Adjustment 1 to Transportation Revenue

Line	Description	Amount
1	Transportation revenue, second half (Oct 2015 – Mar 2016)	\$10,677,130
2	Annualized transportation revenue, second half of Subject Period	\$21,354,260
3	Transportation revenue, full Subject Period	\$22,036,405
4	Difference	\$(682,145)

In my opinion, this is the most reasonable expectation of the annual transportation revenue that Crimson will earn during the pendency of this proceeding, before taking into account the 10 percent rate increase that it is already collecting subject to refund.

8. Crimson increased its rates after the Subject Period by 10 percent in connection with the January Request. Adjustment 2 in column (c) of Exhibit No. MJW-1 reflects the additional revenue that Crimson expects to earn from its 10 percent rate increase after the Subject Period. This adjustment increases revenue by \$2,135,426, which is 10 percent of the annualized transportation revenue in Table 1, Line 2, above. Since Crimson will collect this amount during the pendency of this proceeding, it is appropriate to include it in projected annual cash from operations shown in column (f) of Exhibit No. MJW-1.
9. Just as the continuing decline in volumes causes projected transportation revenue to decline, the continued decline in volumes and the decline in oil prices causes the projected PLA revenue to decline. PLA revenue was significantly lower in the second half of the Subject Period compared to the first half. Adjustment 3 in column (d) applies this six-month trend for projected revenue in place of the twelve-month figure as follows:

Table 2 – Explanation of Adjustment 3 to PLA Revenue

Line	Description	Amount
1	PLA revenue, second half (Oct 2015 – Mar 2016)	\$2,395,124
2	Annualized PLA revenue, second half	\$4,790,248
3	PLA revenue, full year	\$7,407,434
4	Difference	\$(2,617,186)

10. However, in my opinion this reduction may overstate the projected decline in PLA revenue. Specifically, as shown in Exhibit No. MJW-2 the US Energy Information Administration reported that the average crude price for the Subject Period was \$37.56. As shown in Exhibit No. MJW-3, the futures price for crude oil for the rest of 2016 averages \$49.63. This implies an average crude oil price of \$43.60. Adjustment 4, shown on Line 2, Column (e) of Exhibit No. MJW-1, increases the annualized PLA revenue from the most recent six-month period to reflect this higher average crude oil price as follows:

Table 3 – Explanation of Adjustment 4 to PLA Revenue

Line	Description	Amount
1	Crude price, Oct 2015 – Mar 2016 (Ex. MJW-2)	\$37.57
2	Average crude futures price through December 2016 (Ex. MJW-3)	\$49.63
3	Average expected crude price April 2016 – December 2016 ((Line 1 + Line 2) / 2)	\$43.60
4	Expected crude price as a percentage of crude price, second half (Line 3 / Line 1)	116.1%
5	Adjusted annualized PLA revenue, second half (Line 4 * Line 6)	\$5,559,085
6	Annualized PLA revenue, second half (Table 2, Line 2)	\$4,790,248
7	Difference (Line 5 – Line 6)	\$768,837

11. Together the four revenue adjustments presented in Exhibit No. MJW-1 result in projected annual revenue of \$29,586,636.
12. The calculation of expenses is more straightforward and does not require adjustments. Specifically, I took from the books and records of the company, the actual expenses that Crimson incurred during the subject period without adjustment. I confirmed with Crimson personnel that these costs reflect actual cash expenses that Crimson incurred during the subject period. In other words, the \$32,957,040 shown on Line 5 of Exhibit No. MJW-1 reflects actual cash that Crimson paid out to provide service to its ratepayers.

Because I am not calculating rates that will be in place for an indefinite period, as I will for the permanent rates, normalizing and test period adjustments are not necessary. Moreover, because expenses do not occur consistently throughout the year—specifically Crimson informs me that repair and maintenance expense tends to be higher in the Summer and early Fall—analyzing a period of less than a year could generate misleading results.³ For this reason, I believe using the most recent 12-month period for which complete data is available provides the most accurate projection of Crimson’s expenses and the expenses it is likely to face during the pendency of the rate proceeding.

13. Subtracting operating expenses from the adjusted revenue implies that annual cash from operations is projected to be negative \$3,370,404. In other words, the combination of continued volume declines and continued low oil prices means that Crimson can expect to lose money on a cash basis, even after factoring in its 10 percent rate increase from the January Request. To remedy this loss, I recommend allowing Crimson to increase its rates by an additional 14.35 percent. I calculated this figure by dividing the absolute value of the projected annual cash from operations by the projected annual transportation revenue, *i.e.* $(-1) * \text{Line 6} / \text{Line 1 in Column (f) of Exhibit No. MJW-1}$.
14. A further fact supporting this conclusion is the relative difference in size between Crimson’s shippers and Crimson. While it is never appropriate to require a public utility to operate at a loss, it is truly problematic in this case Table 4 shows Crimson’s revenue, operating income and assets, are orders of magnitude smaller than the comparable measures of Tesoro, Valero and Phillips 66.⁴ There is no sound reason of public policy to

³ In fact, annualizing the most recent six months of the subject period would imply operating expenses of \$36.3 million

⁴ I obtained these figures for Crimson from the annual report it recently filed with this Commission. I obtained these figures for Tesoro, Valero, and Phillips 66 from their respective 10K filings. It is important to note that these

require a company such as Crimson to provide service at a loss to a company such as P66 that has more than 3000 times the revenue and more than 500 times the assets of Crimson.

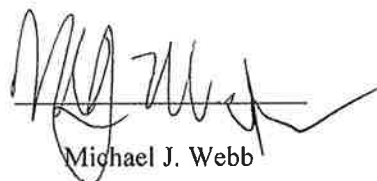
Table 4 – Comparison of Crimson to Its Shippers, in millions

<i>Basis for Comparison</i>	<i>Crimson</i>	<i>Tesoro</i>	<i>Valero</i>	<i>Phillips 66</i>
Revenue	\$30.9	\$28,711	\$87,804	\$100,949
Operating Income	\$(3.8)	\$2,827	\$6,358	\$4,227
Assets	\$90.6	\$16,332	\$44,343	\$48,580

15. For the reasons described in this statement, I recommend that the Commission allow Crimson to immediately implement a 14.35 percent rate increase.

The foregoing declaration is submitted under penalty of perjury in accordance with the laws of the State of California.

Dated: June 15, 2016



Michael J. Webb

figures reflect a slightly different time period for Crimson than the figures shown in Exhibit No. MJW-1. Operating Income in this case also subtracts depreciation expenses.

Application for Emergency Rate Relief
Crimson California Pipeline L.P.
Application for Emergency Rate Relief

Line	Description	Actual Apr15 - Mar16	Adj 1, Updated Volume	Adj 2, Updated Rate	Adj 3, Updated Volume and Price	Adj 4 Updated Price	Projected Annual
		(a)	(b)	(c)	(d)	(e)	(f)
1	Transportation Revenue	\$ 22,036,405	\$ (682,146)	\$ 2,135,426			\$ 23,489,685
2	PLA Revenue	\$ 7,407,434			\$ (2,617,186)	\$ 768,837	\$ 5,559,085
3	Other Revenue	\$ 537,866					\$ 537,866
4	Total Revenue	\$ 29,981,705					\$ 29,586,636
5	Operating Expenses	\$ 32,957,040					\$ 32,957,040
6	Cash from Operations	\$ (2,975,335)					\$ (3,370,404)
7	Minimum rate increase for recovery of cash operating costs						14.35%

Application of Minimum Rate Increase for Recovery of Cash Operating Costs**Crimson California Pipeline L.P.****Application for Emergency Rate Relief**

Line	Description	Projected with Relief
1	Transportation Revenue before relief	\$ 23,489,685
2	Increase from relief (Ln 1 * 14.9%)	\$ 3,370,404
3	Transportation Revenue after relief	\$ 26,860,089
4	PLA Revenue	\$ 5,559,085
5	Other Revenue	\$ 537,866
6	Total Revenue	\$ 32,957,040
7	Operating Expenses	\$ 32,957,040
8	Cash from Operations	\$ -

NOT USED

Spot Crude Prices, from EIA Data Source
Crimson California Pipeline L.P.
Application for Emergency Rate Relief

Line	Month	Spot Crude Price per Barrel	
		(a)	
1	October 2015	\$	46.22
2	November 2015	\$	42.44
3	December 2015	\$	37.19
4	January 2016	\$	31.68
5	February 2016	\$	30.32
6	March 2016	\$	37.55
Average crude price,			
7	Oct 2015 – Mar 2016	\$	37.57

Futures Crude Prices, from CME Group Data Source
Crimson California Pipeline L.P.
Application for Emergency Rate Relief

Line	Month	Spot Crude Price per Barrel	
		(a)	
1	July 2016	\$	48.35
2	August 2016	\$	48.96
3	September 2016	\$	49.49
4	October 2016	\$	49.93
5	November 2016	\$	50.36
6	December 2016	\$	50.71
Average futures price,			
7	Jul 2015 – Dec 2016	\$	49.63